

## Message Text

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C O N F I D E N T I A L LIMA 2111

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LIMDIS

E.O. 11652: GDS  
TAGS: EFIN, PE  
SUBJECT: PERU AND THE IMF

1. SUMMARY: PRIME MINISTER MOLINA DESCRIBED TO ME THE ACUTE FOREIGN EXCHANGE SITUATION IN PERU AND THE CRITICAL ROLE OF THE IMF DRAWING IN OBTAINING NECESSARY CREDIT. THE GOP DOES NOT APPEAR TO HAVE A CLEAR STRATEGY FOR RESPONDING TO THE PROBLEMS RAISED BY LINDA KOENIG AND HAS ASKED FOR OUR HELP AT THIS DIFFICULT JUNCTURE. END SUMMARY.

2. I MADE MY PROTOCOLARY CALL MARCH 9 ON GENERAL OSCAR MOLINA, THE NEW PRIME MINISTER AND MINISTER OF WAR. COLONEL BERNAL OF THE MIL GROUP ACCOMPANIED ME. AFTER AN EXCHANGE OF THE USUAL PLEASANTIES MOLINA SAID HE WANTED TO REVIEW WITH ME THE REQUEST FOR SUPPORT PRESIDENT MORALES BERMUDEZ HAD BEEN OF PRESIDENT CARTER IN A LETTER HE THOUGHT HAD BEEN DESPATCHED LAST WEEK. MOLINA SAID HE WAS DOING THIS ON THE INSTRUCTIONS OF HIS PRESIDENT AND BY WAY OF SEEKING MY HELP AT THIS DIFFICULT MOMENT.  
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3. PERU, MOLINA SAID, IS CLOSE TO "DROWNING". A LOAN HAD BEEN ARRANGED WITH THE FOREIGN BANKS TO MEET THE COUNTRY'S PRESSING NEED TO SERVICE THE FOREIGN DEBT, BUT THE LOAN IS DEPENDENT ON DRAWING FROM THE IMF. THAT HAS BEEN DELAYED AND THE GOP FINDS ITSELF IN A CRITICAL POSITION. MOLINA ASSERTED THAT THE PROBLEM IS LINDA

KOENIG. SHE IS "INTRANSIGENT". THE MINISTER SAID THAT MS. KOENIG HAD COME DOWN ON HER LAST MISSION IN THE ROLE OF "INSPECTOR" AND HAD GONE INTO THE MOST MINUTE DETAILS OF GOVERNMENT OPERATIONS. PRESIDENT MORALES BERMUDEZ IS NOW CONVINCED THAT HER PERSONAL ATTITUDE IS THE PRINCIPAL OBSTACLE TO RESOLVING THE GOP'S PROBLEM WITH THE FUND. MOLINA NOTED THAT AN IMPORTANT IMF "DIRECTOR" (APPARENTLY KAFKA) HAD JUST LEFT LIMA AFTER A 2-DAY VISIT IN WHICH HE DISPLAYED A PURPORTEDLY FAR MORE FORTHCOMING ATTITUDE.

4. I ASKED FOR SPECIFICS. WHAT HAD MS. KOENIG FOUND OBJECTIONABLE IN THE GOP'S PERFORMANCE? MOLINA SAID SHE LEFT BEHIND WRITTEN "OBSERVATIONS" ON PROBLEMS WITH THE EXCHANGE RATE, THE FISCAL DEFICIT AND INTERNAL CREDIT. THESE, IN HIS VIEW, WERE "INSUBSTANTIAL". HE FOUND IT PARTICULARLY DIFFICULT TO UNDERSTAND HER OBJECTIONS TO THE HANDLING OF THE BUDGETARY ALLOCATION SET ASIDE FOR PAYMENT TO THE USSR. (APPARENTLY WHEN THE DECISION TO ROLL OVER WAS MADE THE CORRESPONDING SOLES WERE SIMPLY INJECTED INTO THE BUDGET.)

5. IN RESPONSE TO MY FURTHER QUESTION, MOLINA SAID THE GOP REALIZED THAT THE PRICE OF GASOLINE WOULD HAVE TO BE RAISED BUT COULD NOT DO IT NOW. HE COMMENTED THAT MS. KOENIG SIMPLY DID NOT APPRECIATE POLITICAL REALITIES.  
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LABOR AGITATION IS ALREADY DANGEROUS. THE CURRENT STRIKES IN THE TEXTILE INDUSTRY AND ON THE RAILROADS POINT UP THE PROBLEM. (MOLINA NOTED IN PASSING HIS CONVICTION THAT THE GOP COULD NOT AGREE TO COMPLETE LABOR AMNESTY, THUS APPARENTLY CONFIRMING REPORTS THAT HE IS LINED UP ON THIS ISSUE WITH INTERIOR MINISTER CISNEROS.) MOLINA SAID THE GOP BELIEVES THE DOLLAR IS STILL OVER-VALUED IN RELATION TO THE SOLE. ON THE INTERNAL SIDE, HE SAID A NEW ECONOMIC PLAN WITH "SEVERE" MEASURES ASSERTEDLY GOING BEYOND THE PROVISIONS OF THE STANDBY IS NOW UNDER PREPARATION. I ASKED IF THE PLAN WOULD BE SUBMITTED TO THE FUND. HE SAID 20-30 DAYS WOULD BE REQUIRED TO "ELABORATE IT" AND THE GOP NEEDS FOREIGN CURRENCY NOW.

6. I THEN ASKED HOW THE MATTER WAS LEFT WITH THE FUND. MOLINA DID NOT KNOW, HE ONLY REPEATED THAT THE FOREIGN EXCHANGE SITUATION IS CRITICAL. I SAID WE ARE AWARE OF HOW DIFFICULT THIS MOMENT IS FOR PERU AND WISH TO BE HELPFUL. BU AT THE SAME TIME WE BELIEVE, ASP KNEW PRESIDENT MORALES BERMUDEZ DOES, THAT STRICT AUSTERITY IS REQUIRED IF PERU IS TO EMERGE FROM THIS

CRISIS. I ALSO EXPLAINED THE AUTONOMOUS NATURE OF IMF OPERATIONS AND THE FACT OF OUR LIMITED INFLUENCE. I CONCLUDED BY SAYING THAT I WOULD LOOK INTO THE PROBLEM THE MINISTER HAD POSED AND BY ASSURING HIM ONCE AGAIN OF OUR DESIRE TO BE COOPERATIVE. MOLINA SAID THE GOP HOPES FOR "FRANK AND DIRECT" SUPPORT FROM THE USG.

7. COMMENT: MY IMPRESSION IS THAT THE TOP LEADERSHIP OF THE GOP GENUINELY BELIEVED IT WAS DOING WELL UNDER THE STANDBY AND SUFFERED A SEVERE SHOCK WHEN MS. KOENIG APPARENTLY FOUND OTHERWISE. IN ANY EVENT, THE GOP THINKS THE FUND IS PRESSING FOR MEASURES THAT POLITICAL REALITIES WILL NOT PERMIT IT TO TAKE. THE DELEMMA HAS BEEN THERE EVER SINCE PERU GOT INTO THIS FINANCIAL BIND. HOW DOES A GOVERNMENT FACED WITH WIDE-  
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SPREAD SOCIAL UNREST AND RISING POLITICAL OPPOSITION IMPOSE FURTHER IMPOVERISHMENT ON AN ALREADY DESPERATELY POOR COUNTRY? FISCAL RESPONSIBILITY COULD IN THESE CIRCUMSTANCES TURN OUT TO BE SOCIAL AND POLITICAL IRRESPONSIBILITY.

8. THERE ARE, OF COURSE, OTHER BASIC PROBLEMS. THE GOP CONTINUES TO MANAGE ITS FINANCIAL AFFAIRS VERY POORLY INDEED AND MOVES AT THE PACE OF A SNAIL. FOR EXAMPLE, MORE THAN A WEEK HAS PASSED SINCE MS. KOENIG LEFT PERU AND THE PRIME MINISTER APPARENTLY STILL HAS NO IDEA OF WHAT COMES NEXT. WE WILL ATTEMPT TO FIND OUT IF THERE IS ANY CLEARER VIEW IN THE FINANCE MINISTRY. IT WOULD BE HELPFUL IF THE DEPARTMENT COULD GIVE US A BETTER READING ON WHAT THE GOP MAY BE EXPECTED TO DO IN ORDER TO DRAW. I AM AFRAID THAT WE WILL BE COMING CLOSE TO DEFAULT OR A FORCED RESCHEDULING IN THE ABSENCE OF THAT DRAWING.  
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## Message Attributes

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